EL Financial Corporation Limited

2003 Annual Report

Financial Corporation Limited and subsidiary companies

The Year at a Glance

35th Annual Report	2003	2002
Total Premiums	**$ 1,358,119,000**	$ 1,107,295,000
Total Revenues	**1,652,951,000**	1,380,163,000
Net Income (excluding investment gains)	**42,903,000**	23,345,000
Net Income (including investment gains)	**46,870,000**	47,619,000
Total Assets (including segregated funds)	**7,308,559,000**	6,429,758,000
Shareholders' Equity	**1,375,394,000**	1,268,496,000
Net Income (excluding investment gains) per Share	**11.17**	6.08
Net Income (including investment gains) per Share	**12.20**	12.40

Note: Per share earnings figures assume full conversion of the Company's convertible preference shares.

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held at 11:45 a.m. Toronto time on Thursday, April 29, 2004 at the Company's head office, 165 University Avenue, Toronto. All shareholders are invited to attend.

Head Office	Tenth Floor, 165 University Avenue, Toronto, Ontario M5H 3B8 Telephone (416) 947-2578
Shares Listed	Toronto Stock Exchange
Auditors	Deloitte & Touche LLP
Transfer Agent and Registrar	Computershare Investor Services Inc.

Board of Directors

J. Christopher Barron,
Chairman, Scotia Cassels Investment Counsel Limited

George L. Cooke, LL.D.,
President and Chief Executive Officer, The Dominion of Canada General Insurance Company

William J. Corcoran, LL.B.,
Vice-Chairman, Jarislowsky Fraser Limited

Douglas G. Hogeboom, F.S.A., F.C.I.A.,
President and Chief Executive Officer, The Empire Life Insurance Company

Duncan N.R. Jackman,
Chairman and President, E-L Financial Corporation Limited

The Honourable Henry N.R. Jackman,
Honorary Chairman, The Empire Life Insurance Company

Mark M. Taylor,
Executive Vice-President and Secretary, E-L Financial Corporation Limited

Officers

Chairman and President

Duncan N.R. Jackman

Executive Vice-Presidents

George L. Cooke
Douglas G. Hogeboom
Mark M. Taylor

Treasurer

Travis R. Epp

Management's Discussion and Analysis
Report on E-L Financial Corporation Limited

This document has been prepared for the purpose of providing Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for the years ended December 31, 2003 and 2002. This MD&A should be read in conjunction with the Company's December 31, 2003 year-end financial statements, which form part of the E-L Financial Corporation Limited 2003 Annual Report dated February 26, 2004. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and unless otherwise noted, both the financial statements and this MD&A are expressed in Canadian dollars.

MD&A contains certain forward-looking statements that are subject to risks and uncertainties that may cause the results or events mentioned in this discussion to differ materially from actual results or events. No assurance can be given that results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

The Company

E-L Financial Corporation Limited ("the Company") operates as an investment holding company. It owns 100% of The Dominion of Canada General Insurance Company and 80% of The Empire Life Insurance Company. The Company also owns an investment portfolio.

The Company's strategy is to accumulate wealth within each of its investee companies. The Company manages its investments through representation on the boards of directors of the two insurance subsidiaries and of the investment companies in which the Company has shareholdings.

The Company manages a portfolio of publicly traded fixed income and equity securities both directly and indirectly through a number of closed-end investment fund corporations and other investment companies. The Company's primary objective is to accumulate shareholder value through long term appreciation in its equity holdings and through a combination of stable earnings and capital growth in its bond portfolio.

Overview of results

The consolidated financial statements that follow reflect the results and financial position of the two insurance companies and the Company's portfolio investments. Additional information is provided in the notes to the financial statements and the five year summary of results.

For the year ended December 31, 2003, net income before investment gains totalled $42.9 million or $11.17 per share compared with $23.4 million or $6.08 per share for the previous year.

If investment gains are included, net income for 2003 was $46.9 million or $12.20 per share compared with $47.6 million or $12.40 per share in 2002.

The following table summarizes the results of the Company's business segments:

(millions of dollars)

	Portfolio Investments		General Insurance		Life Insurance		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Net income:								
Income (loss) excluding undernoted	**$ 10.3**	$ 10.4	**$ 33.6**	$ 14.0	**$ (1.0)**	$ (1.0)	**$ 42.9**	$ 23.4
Amortization of investment gains and losses	**—**	—	**—**	—	**15.1**	12.6	**15.1**	12.6
Gain (loss) on sale of investments	**2.2**	3.4	**(13.3)**	8.2	**—**	—	**(11.1)**	11.6
	$ 12.5	$ 13.8	**$ 20.3**	$ 22.2	**$ 14.1**	$ 11.6	**$ 46.9**	$ 47.6

Report on E-L Financial Corporation Limited (cont'd)

A summary of various financial data for each of the last three years is as follows:

(millions of dollars, except per share amounts)

	2003	2002	2001
Revenue			
Portfolio investments	**$ 21.2**	$ 27.1	$ 42.1
General insurance	**962.9**	770.3	726.0
Life insurance	**668.9**	582.8	538.6
	$ 1,653.0	$ 1,380.2	$ 1,306.7
Net income			
Portfolio investments	**$ 12.5**	$ 13.8	$ 11.4
General insurance	**20.3**	22.2	34.2
Life insurance	**14.1**	11.6	29.7
	$ 46.9	$ 47.6	$ 75.3
Assets			
Portfolio investments	**$ 690.0**	$ 605.9	$ 631.0
General insurance	**1,919.3**	1,593.5	1,418.7
Life insurance - general fund	**2,736.4**	2,528.1	2,461.8
- segregated funds	**1,962.9**	1,702.3	1,860.7
Total assets, including segregated funds	**$ 7,308.6**	$ 6,429.8	$ 6,372.2
Per share			
Net income	**$ 12.20**	$ 12.40	$ 19.60
Cash dividends	**.50**	.50	.50

The following table summarizes various financial results on a quarterly basis for the current and prior year:

(millions of dollars, except per share amounts)

	March 31		June 30		September 30		December 31		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Revenue	**$390.2**	$338.4	**$379.9**	$322.7	**$ 423.3**	$333.8	**$459.6**	$385.3	**$1,653.0**	$1,380.2
Net income	**$ 16.9**	$ 16.9	**$ 1.2**	$ 13.2	**$ 24.2**	$ 11.1	**$ 4.6**	$ 6.4	**$ 46.9**	$ 47.6
Net income per share	**$ 4.41**	$ 4.41	**$ .31**	$ 3.44	**$ 6.29**	$ 2.90	**$ 1.19**	$ 1.65	**$ 12.20**	$ 12.40

The results and financial position of the two insurance companies are further described in each of their Management's Discussion and Analysis.

The Company's portfolio investments are carried at market value on the balance sheet. The difference between the market value and cost of these investments, net of relevant future income taxes, is recorded as unrealized appreciation of portfolio investments.

In 2003, the unrealized appreciation in the Company's portfolio investments increased $75.0 million (2002 - a decrease of $24.7 million) or an increase of approximately 15% (2002 - a decline of 4%) in the market value of the investment portfolio. The majority of the unrealized appreciation is related to the Company's investment in publicly traded closed-end investment fund corporations.

Liquidity and financial position

Liquidity refers to the Company's ability to maintain cash flow adequate to fund operations as well as to provide resources for additional investments.

Excess cash from operations is invested in the Company's portfolio investments. Dividends are received from insurance subsidiaries, after consideration of their ongoing liquidity and capital needs.

Outlook and risks

The Company's future prospects are dependant on the continued profitability of the two insurance company subsidiaries, and the successful management of its investment portfolios.

The insurance companies are federally regulated financial institutions. These companies operate in competitive marketplaces that continue to experience significant change. For Life and Health, these include consolidation, increased price competition and lower investment yields. For Property and Casualty, 2003 provided the hardest market in many years with severe increases, strict underwriting terms and reduced capacity. Politicians intervened in personal auto with premium rate freezes and market conduct regulation.

The insurance companies' future prospects will be determined by their ability to effectively manage their operations, including the pricing and distribution of their products; and availability and access to capital. Their future success will also be a function of continued focus on cost-containment, service enhancement, investment management performance, appropriate pricing strategies and effective use of technology. Risks relating to the Company's financial instruments are described further in the notes to the financial statements.

The performance of the investment portfolios will depend largely on the overall direction of the market. While 2003 was a good year around the world for stocks, there is little chance that 2004 will match that performance.

Duncan N.R. Jackman
Chairman and President

February 26, 2004

Management's Discussion and Analysis

Report on General Insurance Operations

Mr. George L. Cooke

The Dominion of Canada General Insurance Company ("The Dominion") is licensed to underwrite property and casualty (P&C) insurance in all jurisdictions in Canada. On January 1, 2002, The Dominion and its wholly-owned subsidiary, Chieftain Insurance Company amalgamated and continued under the name "The Dominion of Canada General Insurance Company", with Chieftain's products and operations continuing as a division of The Dominion. The Chieftain brand provides higher coverage continuous policies for personal automobile and personal property in Ontario.

As required by the Office of the Superintendent of Financial Institutions, in 2003 The Dominion adopted a new accounting policy to measure all claims and reinsurance amounts on a discounted basis, in accordance with accepted actuarial practice, as prescribed by the Canadian Institute of Actuaries. Previously, only auto accident benefit claims amounts were discounted. The financial impact of this change is described in Note 2 to the financial statements.

Overview

Net income for 2003 was $20.3 million compared to $22.2 million in the prior year. Return on average equity was 5.0% in 2003 compared to 5.7% in 2002. The reduction in earnings reflects a net realized investment loss of $15.8 million in 2003 (net gain of $10.6 million in 2002), which detracted from a significant improvement in underwriting results. Underwriting results, at a combined ratio (total expenses divided by net premiums earned) of 101.9% in 2003, improved 3.2 points from 105.1% in the prior year. Improved pricing and continued vigilant underwriting resulted in a third consecutive year of improved underwriting results. Despite the net realized investment loss, the market values of investments rebounded in the year resulting in an ending net unrealized gain of $65.9 million (net unrealized loss of $16.9 million in 2002). The Dominion enjoyed a second year of significant gross written premium growth of 31.0% in 2003 (2002 – 22.7%) from both price increases and policy growth. The rebound in investment markets allowed The Dominion to sustain this growth while maintaining its healthy regulatory capital solvency ratio. Assets grew by 20.4% due to strong premium growth (2002 – 11.9%). Page 43 of this report provides an overview of financial results and position for the five-year period from 1999 to 2003. Management expects overall earnings growth in 2004 through continued improvement in the combined ratio.

Industry dynamics and management's strategy

The function of a P&C insurer is to pool the risks of its customers, collecting a premium from each in order to fund the covered claims of the few. Premiums, less underwriting expenses (commissions, operating expenses and premium taxes), are held and invested (the "insurance float") until they are eventually repaid in the form of claims payments. The annual "cost of borrowing" on the insurance float is the insurer's underwriting loss for the year, which is the excess of claims and underwriting expenses over net premiums earned. An insurer generates a margin by earning an investment return on the insurance float that exceeds the underwriting loss. This margin on the insurance float is in addition to the investment return earned on other investments which are held in support of shareholder capital. Typically, P&C insurers require relatively little working capital and, as a result of collecting premiums in advance of paying claims, can enjoy a high degree of liquidity, if well managed. The function of shareholder capital is to provide a buffer for large unusual losses or in the event that existing provisions for net unpaid claims prove to be inadequate. Regulators establish minimum capital requirements for insurers to maintain.

Management's goal is to achieve, over time, a target return on equity which is based on a specified risk free market yield plus a risk premium for investing in a P&C entity. The overall target consists of underwriting and investment targets. The Dominion achieved the underwriting target but missed the overall target due to the net investment loss realized in 2003.

Our growth strategy is not focused on market share or absolute size, as an end. Economies of scale are elusive in the P&C market and there continue to be too many players, causing excessive competition and extreme soft/hard market swings. Our strategy is to maintain sufficient size and presence in the market place in order to be relevant to brokers so that they continue to grow their business with us. Accordingly, management's annual growth targets are established with a view to optimizing earnings growth, while maintaining a relevant presence with independent brokers, our sole distribution channel.

The Dominion's relationship with brokers is important for our success. Management seeks to grow its goodwill with brokers by being a supportive partner in supplying their customers with reliable, consistent service at a fair price. Our availability to write business in this difficult market has strengthened broker loyalty and support. The Dominion monitors its relative position with its brokers and actively seeks to be a top-three supplier, if not the primary one, within a broker's operation. The majority of The Dominion's technology development consists of initiatives to improve brokers' ease of doing business with The Dominion. Our brokers have also appreciated The Dominion's "made-in-Canada" decision-making, which reflects the benefits of being Canadian-owned and managed.

In 2003, gross premiums written increased by 31.0% (22.7% in 2002). Growth in 2003, excluding The Dominion's share of Facility Association, was 26.8% (2002 – 21.7%) and consisted of an increase in average premiums of 21.4% (16.6% in 2002) and an increase in policies of 5.4% (5.1% in 2002). Consistent with 2002, the growth in policy counts in 2003 reflects the fact that The Dominion has been "open for business" for its brokers in this hard market in which many of our competitors have been restricting their capacity due to insufficient capital and/or results. The Dominion's capacity to grow derives from better profitability and a stronger capital base. Management expects slightly lower policy count growth in 2004. Due to government intervention in auto insurance and emerging moderation of rate increases in commercial lines, the average rate increase in 2004 is expected to be positive but low overall.

We seek to deliver high quality claims service in order to attract and retain good customers and preserve the support of our brokers. Our claims settlement philosophy is to provide the same degree of quality service in every interaction with a customer, regardless of the size or type of claim. We emphasize pro-active communication to customers regarding the claims process and what they can expect, and to provide a sympathetic and comfortable experience. However, we will not overpay a claim in the name of service, since that unfairly increases the cost of insurance to all customers. The Dominion engages an independent firm to conduct a claims satisfaction survey annually; our claimants consistently report being satisfied with The Dominion's service. To meet ever-increasing service expectations, claims management continue to build a culture where quality service and continuous improvement are valued and rewarded.

Report on General Insurance Operations (cont'd)

Mr. George L. Cooke

The Canadian P&C industry's underwriting results continued to improve in 2003 due to increasing prices, tightened underwriting criteria and reduced underwriting capacity. The industry's underwriting results are improving in most lines. Improved underwriting results are expected to more than offset declining investment returns, resulting in an expected increase in the industry's return on equity. Within the improved underwriting results, insurers in Canada sustained claims of approximately $0.3 billion combined for both the British Columbia fires and Hurricane Juan on the east coast and, more costly than those two disasters together, an approximately $0.4 billion operating loss from Facility Association, the industry funded auto insurance pool of last resort for drivers who cannot obtain insurance elsewhere. In The Dominion's 101.9% combined ratio, these three items accounted for 1.6%, 0.5% and 2.7%, respectively in 2003.

Public intolerance for auto insurance premium increases and unavailability sparked a severe political backlash by provincial politicians who regulate auto insurance. Auto insurance benefits have become unsustainably expensive and, in some jurisdictions, have come to allow for abuse or new costs which were not originally intended. In the late 1990's, escalating claims costs were subsidized by historically high investment returns, resulting in premium reductions. In the current low yield investment environment, the escalating cost of claims had to finally be reflected in premium rates. Most provincial governments implemented premium rate freezes, reductions or similar measures in 2003, blaming the industry for the situation, even though it is only they who can implement the necessary product changes through legislative/regulatory processes in order to stabilize claims costs. After intense effort by the industry, including The Dominion, most provinces have, or are in the process of, implementing cost-containment reform to their auto products. We believe auto claims costs will stabilize in 2004 to allow a reasonable return on reduced premium rates. Alberta is the one province that appears to be proceeding with measures which may worsen, rather than improve, insurers' ability to offer reasonable coverage for a reasonable return. The Dominion's 2004 business mix in Alberta will be managed in response to the suitability of government reforms. As a by-product, the industry has suffered a serious deterioration in credibility with the public, the media and governments. Restoring the trust of customers and regulators will continue to be a priority in 2004 and beyond for The Dominion and our broker partners.

Analysis of financial results and condition

The Dominion underwrites standard general insurance products through eight territories which are concentrated in four geographic areas. The geographic mix of premiums in 2003 is largely unchanged from the prior year and is as follows: Ontario 70%, Western region 14%, Atlantic provinces 11% and Pacific region 5%. Product mix is fairly consistent across the regions, except that Pacific region's business is mostly property, due to the government monopoly on automobile business in British Columbia. The loss ratio (claims divided by net premiums earned) is a key indicator of underwriting performance and management monitors loss ratios by product line for each of its regions.

Report on General Insurance Operations (cont'd)

Mr. George L. Cooke

The following table and commentary analyze The Dominion's financial results for 2003 and 2002:

(millions of dollars)

	Automobile		Personal Property		Commercial Property & Casualty		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Gross written premium	**$ 676**	$ 507	**$ 198**	$ 164	**$ 189**	$ 141	**$1,063**	$ 812
Growth %	**33.2**	22.5	**21.3**	14.7	**34.0**	34.4	**31.0**	22.7
Mix of business %	**63**	63	**19**	20	**18**	17	**100**	100
Net premiums earned	**$ 597**	$ 452	**$ 166**	$ 139	**$ 152**	$ 111	**$ 915**	$ 702
Claims Expense	**(459)**	(360)	**(116)**	(98)	**(88)**	(61)	**(663)**	(519)
Loss ratio %	**76.9**	79.6	**70.2**	70.6	**57.4**	54.7	**72.5**	73.9
Other expenses							**(269)**	(219)
Premium finance fee							**11**	9
Underwriting loss							**(6)**	(27)
Investment income							**37**	60
Income taxes							**(11)**	(11)
Net income							**$ 20**	$ 22

Automobile

Growth of 33.2% includes 6.6% from The Dominion's share in Facility Association's growth. Facility Association is a government mandated insurance pool of last resort which provides insurance to drivers who cannot obtain it from private insurers, and which is funded by all private auto insurers. Facility's volume has nearly tripled in 2003 as a result of reduced capacity and prohibitive prices in the private market. The Dominion's remaining growth of 26.6% was achieved through a 19.3% increase in average written premiums and a 7.3% increase in policies in force. The auto loss ratio finally improved in 2003 due to improved pricing and a decrease in claims frequency for a second consecutive year. Facility losses added 3.8% to The Dominion's auto loss ratio in 2003 (added 1.4% in 2002). In 2004, we expect reduced average premiums for personal auto, moderate increases for commercial auto and policy growth similar to 2003.

Personal property

Growth of 21.3% was generated from an increase of 17.5% in average premiums and an increase of 3.8% in policies in force. Claims frequency declined in 2003, despite two major catastrophes. The loss ratio of 70.2% includes 8.7% for the fire losses in British Columbia and 1.8% for Hurricane Juan claims. Last year's loss ratio included less than 6.0% for catastrophe claims. Moderate rate increases and policy growth are expected in 2004.

Report on General Insurance Operations (cont'd)

Mr. George L. Cooke

Commercial property, casualty and surety

These coverages are generally sold together in package policies. The Dominion's commercial business is typically main-line small to mid-sized exposures and on the conservative end of the risk spectrum. Growth in these lines came from an average premium increase of 33.2% and an increase in policy counts of 0.8%. In 2003, further rate increases and reduced frequency outpaced increased claims severity. The Dominion plans for moderate price increases and policy growth in 2004.

Expenses

The expense ratio (the sum of commissions, operating expenses and premium taxes, divided by net premiums earned) fell to 29.4% in 2003 from 31.2% in 2002. Commissions remained unchanged at 17.8% of net premiums earned. Premium taxes also remained unchanged at 3.4%. The improvement in the expense ratio was due to a 1.8% decrease in The Dominion's operating expenses, to 8.2% of net premiums earned, reflecting the fact that earned price increases exceeded operating cost increases. In absolute dollars, operating expenses increased $4.2 million over the prior year, mainly from annual salary increases, increased staff levels and some directly variable processing costs.

Investments and capital

Investment income (interest and dividends) before income tax was $52.6 million in 2003, an increase of $3.4 million from 2002. The increase reflects a higher average portfolio balance, offsetting a lower average investment yield of 3.9% in 2003 (2002 - 4.2%). The average balance of investments and cash grew 13.5% in 2003 (9.1% in 2002) as a result of significant premium growth. The Dominion's book yield is expected to decrease slightly during 2004, since existing book yields are higher than the expected market yields at which maturity proceeds will be reinvested.

Realized gains and losses result from trading decisions which are made to maximize the ongoing economic return of The Dominion's portfolios and, accordingly, do not follow a predictable pattern from year to year. The realized net investment loss of $15.8 million was the main negative element affecting The Dominion's net income in 2003. The Dominion's exposure to common shares consists of units in pooled funds of a third party investment manager. A loss of $28.4 million was realized on the sale of all foreign equity fund units, the proceeds of which were used to acquire units in different American and International pooled equity funds of the same manager. Gains from the sale of bonds and allocated gains from Canadian equity fund units partially offset the realized losses to result in the net realized loss of $15.8 million. Unrealized gains increased, net of the realized loss, by $67.0 million during 2003 as a result of strong stock market performance.

A high degree of liquidity was maintained during the year. At December 31, 2003, the investment portfolio mix included 18% in cash and short-term investments (2002 - 13%), 47% in bonds (2002 - 47%) and 33% in common and preferred stocks (2002 - 38%). As at December 31, 2003, 27% of the bond portfolio is scheduled to mature within two years. Over the last five years, bonds maturing within two years of year end have averaged 22% of the ending bond portfolio.

The Dominion has maintained capital throughout the year well in excess of the requirements of the Insurance Companies Act and regulations. The federal regulator has also established a supervisory minimum to provide a safety buffer above the legally required minimum. The federal regulator introduced a new capital test effective January 1, 2003, which introduces more company-specific risk-discrimination for the risk profile of each company's investments, other assets and types of claims liabilities. At December 31, 2003, The Dominion held over $100 million of capital more than the regulator's supervisory minimum. Generally, required capital grows with the insurer's premium volume and liabilities. The Dominion's test result remained unchanged during the year as a result of the improvement in investment values in 2003, offsetting the effect of growth. Management regularly monitors its capital, considering potential threats from claims development, declines in investment values and operating leverage (premium growth).

Risk management

The key risk exposures and performance drivers of a P&C insurer are appropriate pricing, competent and efficient distribution, effective underwriting (the acceptance of "risks" and properly classifying them), product management (policy terms and conditions), appropriate response to political developments, customer service (enquiries, changes to policy particulars), claims service, conservative claims provisioning, skilled human resources, cost control, sensible use of technology, and successful management of capital, comprising investments, reinsurance and liquidity. Some insurers write specialized, less understood risks and generate their margin from being a niche supplier. The majority of insurers, including The Dominion, focus on standard price-sensitive products and generate a margin from strong risk selection and efficient execution. Although The Dominion's major product, Ontario automobile, is in many respects a competitive commodity, it is in other respects a less mature product because it has been frequently changed by the government. The Dominion's strategies and results for the key performance drivers are discussed in the relevant sections in this report. Management continuously reassesses and adapts its strategies in response to industry dynamics and in anticipation of emerging trends.

For personal lines and some commercial products, The Dominion sets premium rates based on actuarial analysis and consideration of competitive market forces. Some commercial products are priced by individual underwriters, as part of the underwriting process, subject to targets established by management. Our pricing strategy is to be fair to our customers, while obtaining price adequacy in each segment, as the market allows. As a result, our prices are usually in the higher end of the range, compared to our peers. Standard P&C products are, however, very price sensitive and management considers carefully the impact of price increases on our best customers whom we seek to retain.

The Dominion distributes solely through independent brokers, being the channel that distributes the majority of P&C insurance products in Canada. Accordingly, The Dominion's success in the short-term is contingent on the ongoing success of brokers and on management's strategic foresight and ability to respond to threats to the broker distribution channel. Independent brokers continue to be the preferred channel of consumers and we expect brokers to continue to dominate the Canadian insurance market.

Management's provisions for unpaid and unreported claims and reinsurance recoverable are based on actuarially determined estimates for all costs of investigation and settlement of claims occurring prior to year end. Many assumptions underlie these estimates such as claims frequency and severity, claims payment trends, inflation and interest rates, potential changes in legislation and the interpretation of liability by the courts. Ultimate costs incurred will inevitably vary from current estimates. The provisions are discounted using discount rates that reflect expected book yields from supporting investments and

include provisions for adverse deviation, in accordance with accepted actuarial practice in Canada. As a result of discounting, claims expense for claims arising in prior years includes an interest cost which arises from the aging of discounted balances. The interest cost is notionally offset by the portion of investment income that is derived from those investments which are held to eventually pay claims. In addition, when discount rates decrease (increase), the net unpaid claims balance increases (decreases) and this adjustment is included in claims expense in the period the discount rate is changed. Aside from discounting effects, provisions for claims arising in prior years are also changed as a result of ongoing actuarial re-evaluations of expected ultimate payments and such changes are reflected in the year they are determined. During 2003, provisions for unpaid claims arising in prior years were increased $10.8 million (excluding Facility Association claims), which is included as an increase in claims expense in 2003 (2002 - $20.5 million reduction in claims expense). The increase in 2003 mainly reflects a strengthening of old general liability claims provisions.

The Dominion enters into reinsurance agreements with other insurers in order to limit its exposure to significant losses. Reinsurance does not relieve The Dominion of its primary liability as the originating insurer. The majority of reinsurance coverage is in the form of excess of loss treaties which limit our exposure to a certain amount (retention) per claim or, in the case of our catastrophe treaty, limit our aggregate loss of a series of claims arising from a single event. Reinsurance treaties typically renew annually and the terms and conditions are reviewed by the reinsurance committee and reported to the Board. The Dominion writes personal and commercial property business in British Columbia and, accordingly, is exposed to loss from a major earthquake. Management mitigates this exposure through appropriate reinsurance coverage and conservative measurement and management processes, including strict underwriting guidelines, effective use of deductibles, adequate pricing and management of the earthquake exposure capacity allocated to each broker. The Dominion's financial preparedness for an earthquake, through its catastrophe reinsurance and through its own capital, exceeds the federal regulator's requirements.

The majority of other expenses consists of base commissions and premium taxes which are both based on fixed percentages of the applicable premiums and provide no economies of scale. Managing the remaining operating costs is therefore important in this highly competitive industry. Salaries comprise over two thirds of operating expenses. P&C insurance is a knowledge-based service industry and, accordingly, skilled, experienced and effective human resources are The Dominion's most important internal resource. Staff levels were increased again in 2003 in order to maintain service levels for our increased customer base. The Dominion's human resource management practices focus on providing an enriched work experience and maintaining a performance-based compensation program that is in line with the industry. Annual performance appraisals, annual salary review, and the management bonus program, are all geared toward promoting and rewarding employees who truly "Make a Difference." The Dominion has successfully conducted its own underwriting and claims trainee programs for recruiting candidates without insurance experience. Many trainees stay on to become successful employees who progress in their career with The Dominion.

After salaries, technology is the most significant operating expense. About two thirds of the annual technology expenditure is the cost of running existing system operations. With respect to system development, The Dominion follows a technology strategy of making steady incremental improvements within a disciplined budget. Most of the development effort in 2003 continued on multi-year initiatives to improve brokers' "ease of doing business" with The Dominion, to improve access to decision-valuable information for staff and brokers and to enhance operating efficiency.

The Dominion manages its investments to provide for the payment of policy liabilities and to provide a return on shareholder's equity. Investing activities are subject to the Insurance Companies Act and to investment guidelines established by the Investment Committee of The Dominion's Board. Investment managers report on their performance and outlook quarterly to the Investment Committee. Policy liabilities are supported by fixed income investments, predominantly government bonds and some high quality corporate bonds. High quality preferred shares are also held because of their superior after-tax yields, since their dividends are fully deductible. Given the uncertainty in the quantum and timing of claims payments for property and casualty claims, strict asset and liability matching is neither feasible nor necessarily optimal. The Dominion manages the duration of its bond portfolio within a broad range, between 50% to 300% of the duration of claims liabilities, which is typically between two to four years. The Dominion normally maintains its bond duration between 100% to 200% of the duration of its claims liabilities in order to pursue the higher yields which are usually available in the longer portion of a normal yield curve. At December 31, 2003, the bond duration of 4.5 years is 167% of the net unpaid claims duration (2002 - 186%).

Given The Dominion's significant mix of fixed income investments and deliberate exposure to a longer asset duration, volatility in the financial markets, particularly in interest rates, can have a significant impact on the market value of the investment portfolio. The Dominion's fixed income investment managers proactively monitor market conditions and make adjustments in anticipation of significant market changes. The Dominion's usual maturity profile also allows for ongoing liquidity to be maintained such that The Dominion can operate for some time with minimal need to liquidate securities and thus minimize realized losses from disposal at unfavourable market values.

The Dominion's common stocks and some fixed income securities are considered to be in support of shareholder capital and are therefore managed from a longer term perspective. Emphasis is on quality and capital appreciation for stocks and on quality and higher yields for bonds.

Maintaining sufficient liquidity is essential to fund the ongoing payment of claims, including the increased requirements of a sudden catastrophe. Cash flow from premium collection and from interest and dividends is typically more than adequate for meeting claims payments. In addition to maintaining adequate cash and short-term investments on hand, the maturity profile of bonds is managed to provide additional cash flow in the short-term if needed. The ability to more easily dispose of risk-free government bonds, which comprise the majority of the bond portfolio, provides additional liquidity if necessary.

Report on General Insurance Operations (cont'd)

Mr. George L. Cooke

Management regularly monitors and reports to The Dominion's Board of Directors on the potential impact on capital adequacy of the main threats to financial condition, mainly, increases in market interest rates, declines in common stock market values, deterioration in underwriting results and growth above plan. Annually, the Appointed Actuary performs an analysis of the impact of severe adverse scenarios as required by the federal regulator. This report is reviewed by management and The Dominion's Board of Directors and is filed with the regulator. These analyses demonstrate that The Dominion has sufficient resources to withstand significant adverse events. Management incorporates their implications regarding changing risk factors in annual planning and ongoing forecasting.

Outlook

The "hard" market, characterized by severe rate increases and underwriting restrictions, is slowing in Canada due to the effects of government intervention in auto insurance and signs of moderation in commercial lines. We expect that industry underwriting results will remain sound in 2004 and investment returns will remain low due to low interest rates. The Dominion intends to continue to take advantage of its capital strength, established underwriting and claims handling discipline, experienced enthusiastic staff and supportive broker force to grow earnings and gain market share in 2004.

February 26, 2004

Management's Discussion and Analysis
Report on Life Insurance Operations
Mr. Douglas G. Hogeboom

The Empire Life Insurance Company (Empire), under the Empire Financial Group name, provides a broad range of life insurance and wealth management products, employee benefit plans and financial services to meet the needs of individuals, professionals and businesses through a network of Independent Financial Advisors (IFAs), Managing General Agents (MGAs) and Employee Benefits brokers and representatives.

Overview

Empire reported shareholders' net income of $17.7 million for 2003 compared to $14.6 million for 2002. While Capital and Surplus earnings were higher than 2002 as a result of the rebound in domestic and world stock markets in 2003, overall net income from Empire's three major product lines (Wealth Management, Employee Benefits and Individual Insurance) was down from 2002. This decline was primarily due to reserve strengthening and increased new business strain in the Individual Insurance product line. These negative impacts more than offset improvements in earnings due to improved claims experience in the Employee Benefits product line, the rebound in stock markets and improved expense ratios. The net contribution to E-L Financial's earnings, after adjustment for minority interests, was $14.1 million ($11.6 million for 2002). Empire's consolidated risk based capital ratio, as measured by Minimum Continuing Capital and Surplus Requirements (MCCSR), continues to be very strong and well above minimum requirements.

Total assets under administration grew by almost 11% in 2003. Segregated fund assets were up 15% due to the strong rebound in equity markets, and general fund assets increased 8% primarily as a consequence of continued growth in the life insurance product line.

The Summary of Life Insurance Operations on page 43 of this report provides an overview of results for the five-year period from 1999 to 2003. The analysis and discussion which follow, focus on the 2003 and comparative 2002 results for each of the major lines of business.

Industry dynamics and management's strategy

Empire's operations are organized by product line with each line of business having responsibility for product development, marketing, distribution, pricing and customer service within their particular markets. This structure recognizes that there are distinct marketplace dynamics in the three major product lines. Management believes this structure enables each line of business to develop strategies to achieve the enterprise-wide objectives of business growth and expense management while recognizing the unique business environment in which each operates. The lines of business are supported by corporate units that provide administrative and technological services to the lines of business, manage invested assets, and oversee enterprise risk management policies.

Depending on the measure used, Empire is amongst the largest ten to fifteen life insurance companies in Canada. Despite this ranking, Empire has less than a five per cent market share in all three of its major product lines. To be priced reasonably competitively in the marketplace while simultaneously providing acceptable long term financial contribution to shareholders, Empire, as a relatively small player, must find a way to be cost competitive with the larger companies that have some natural economy of scale advantages. In order to improve its unit expenses, management's enterprise-wide strategic focus has been on steady growth in its selected markets and on expense management. Empire has focused exclusively on the Canadian marketplace and within it, on particular market segments where management feels there are opportunities to build solid, long-term relationships with independent distribution partners by offering

competitive products and more personal service. By focusing on particular market segments and by being seen by independent advisors as a viable alternative to a shrinking number of broadly focused competitors, Empire believes these solid relationships will enable sustainable growth at above industry average levels and ultimately result in competitive unit expenses.

The Wealth Management product line at Empire is comprised of segregated fund products and guaranteed interest products. These products compete against those offered by not only other life insurers but also by a variety of other financial institutions. A key element of any competitive strategy in this market is providing a competitive rate of return to clients. Empire's value oriented equity investment strategy has resulted in an above average long-term return track record in the fund marketplace. Empire is expecting to take advantage of this competitive track record and thus grow its market share through the recent addition of capabilities to accept electronic transactions. This "electronic link" is expected to enable Empire to build synergies with those members of the MGA distribution network with whom it already has relationships on the life insurance side of the house, but who require electronic capabilities to place fund business.

Within the broader Employee Benefits marketplace in Canada, Empire continues to focus on the small group market comprised of employers with less than two hundred employees. This niche strategy coupled with an ongoing focus on balancing growth and profit has enabled Empire to be cost competitive within this market segment and is expected to enable this product line to continue to grow its market share while generating target returns.

Individual Insurance products are very long-term in nature and consequently can be subject to significant levels of new business strain. New business strain occurs when the provision for adverse deviation included in the actuarial reserves exceeds the profit margin in the product pricing. Unless a company opts for increased levels of reinsurance, current price levels in the Canadian marketplace create significant new business strain that has a negative impact on short-term earnings. However, because the long-term returns of this product line are consistent with target levels, Empire continues to focus on steady growth technology development and process improvement in order to continue to improve this product line's unit expenses and maintain a competitive market position while generating an acceptable long-term financial contribution.

Management's Discussion and Analysis

Report on Life Insurance Operations (cont'd)

Mr. Douglas G. Hogeboom

Financial analysis

(millions of dollars)

	Wealth Management		Employee Benefits		Individual Insurance		Capital & Surplus		Total Life Insurance	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Premium income	**$ 106.0**	$ 103.9	**$ 168.2**	$ 145.2	**$ 169.1**	$156.6	**$ —**	$ —	**$ 443.3**	$ 405.7
Fee and other income	**37.8**	39.1	**2.0**	1.6	**1.6**	1.8	**1.3**	(0.2)	**42.7**	42.3
Investment income	**62.2**	60.1	**4.2**	3.6	**71.3**	34.5	**12.5**	10.8	**150.2**	109.0
Amortization of investment gains/losses	**3.9**	3.9	**0.7**	0.6	**5.6**	5.2	**22.5**	16.1	**32.7**	25.8
Total revenue	**209.9**	207.0	**175.1**	151.0	**247.6**	198.1	**36.3**	26.7	**668.9**	582.8
Benefits and expenses	**213.0**	202.7	**154.8**	139.2	**280.7**	218.5	**0.7**	0.6	**649.2**	561.0
Income and other taxes	**(5.6)**	(1.5)	**9.3**	6.4	**(7.8)**	(2.4)	**8.9**	6.4	**4.8**	8.9
Net income (loss) after tax	**$ 2.5**	$ 5.8	**$ 11.0**	$ 5.4	**$ (25.3)**	$ (18.0)	**$26.7**	$ 19.7	**14.9**	12.9
Policyholders' portion									**(2.8)**	(1.7)
Shareholders' net income									**17.7**	14.6
Minority shareholders' portion of net income									**3.6**	3.0
Net profit contribution to E-L Financial									**$ 14.1**	$ 11.6
Assets under administration										
General fund assets	**$ 941**	$ 932								
Segregated fund assets	**1,963**	1,702								
Annualized premium sales			**$ 38.0**	$ 28.7	**$ 34.4**	$ 26.9				

Wealth management

Assets in Empire's Segregated Funds increased by more than 15% in 2003 as a result of the strong rebound in equity markets during the year. Despite these positive investment returns, net sales were negative during the year due to a 5% decline in gross sales relative to 2002. This net sales result was consistent with the entire fund industry, which experienced net redemptions during 2003 as investors showed their reluctance earlier in the year to return to Canadian and foreign common stock funds following stock market declines in the prior two years. General fund assets increased by 1% during the year as new sales were up 2% over 2002 as a result of a continuation during the first half of 2003 of the shift in consumer preference towards products with a guaranteed rate of return.

Net income was below the level this product line achieved in 2002. Although 2003 earnings benefited from favourable annuitant mortality experience, this favourable impact was more than offset by reserve strengthening to reflect expected future improvements in annuitant life expectancy.

Employee benefits

The Employee Benefits product line's continued focus on balancing growth and profit generated both record net income and sales in 2003. Sales were 32% higher than last year's level. These strong sales coupled with continued strong persistency enabled the product line's premium income to continue to grow by 16%. The premium growth coupled with persistent expense management once again led to lower unit expenses. While this improving expense ratio contributed to the record earnings in 2003, the largest factor in the increase in earnings was the significantly more favourable claims ratio within the product line. While part of this favourable claims ratio was due to prudent risk selection and claims management, a portion is attributable to temporary favourable fluctuations in claims experience that are not expected to continue into the future.

Technology development plays an important part in maintaining this product line's strong competitive position in the delivery of cost effective client services. In 2003 the first phase of a plan administrator self-service tool was launched, the second of several planned web-based, client-focussed business applications.

Individual insurance

Continued growth in the number of productive relationships with the MGA network led to another record sales year in the Individual Insurance product line in 2003. Sales were 28% higher than last year's level, which itself was 65% higher than in 2001. This organic sales growth led to an 8% growth in premium income which, along with a continued focus on expense management, led to improved unit expenses for the product line.

The increase in sales also led to increased new business strain as Empire continued to reinsure a significantly lower portion of new business than is typical in the Canadian marketplace. This new business strain together with reserve strengthening to reflect recently released industry persistency experience on universal life products led to an increased operating loss in this product line versus 2002, despite the significant improvement in expense ratios and continued improvement in mortality experience.

As part of the focus on process improvement to deliver cost-effective services, imaging was introduced to this product line's new business process in 2003.

Capital and surplus

In addition to the three major lines of business, Empire maintains distinct accounts for the investment income attributable to Policyholders' Surplus and to Shareholders' Capital and Surplus. The 2003 contribution to net income from the Policyholders' Surplus account and the Shareholders' Capital and Surplus account was $26.7 million compared to $19.7 million in 2002. The significant improvement in earnings during 2003 was attributable to the strong rebound in world stock markets following two consecutive years of declines.

Empire continues to maintain a strong balance sheet and capital position. With an MCCSR ratio in excess of 200%, capital is well in excess of minimum regulatory requirements as measured by the Minimum Continuing Capital and Surplus Requirements. Empire's "A" (Excellent) rating from A.M. Best Company provides third party confirmation of this strength.

Risk management

Empire faces a broad range of risks and uncertainties in its day to day operations. The main risks can be classified into three categories; investment risks, insurance risks and other risks. As part of its risk management practices, Empire has implemented a program pertaining to standards of sound business and financial practices as prescribed by regulatory authorities.

The risks centred upon Empire's investments include credit, interest rate, liquidity and foreign exchange risks. Management and Board committees review credit quality relative to investment purchases and also monitor the credit quality of invested assets over time. Empire has an asset-liability matching committee, which reports regularly to the Investment Committee of the Board, and monitors the matched position of investments to the liabilities within the various segments of Empire's operations. The matching process ensures that assets supporting policy liabilities closely match the timing and amount of policy obligations as well as provide the appropriate amount of liquidity. This process addresses the management of interest rate risk, which is the risk of economic losses due to the need to reinvest or divest during periods of changing interest rates and liquidity risk. The matching process also monitors and aligns the foreign currency position of the assets with the liabilities within the various segments thus managing the risk emanating from changes in foreign exchange rates.

Insurance risks, which include product design, pricing, underwriting and liability risks are centred on the risk that actual experience in the future will not develop as estimated. As prescribed by regulatory authorities, the appointed actuary reports annually to the Audit Committee of the Board on Empire's financial condition outlining the impact on capital levels should future experience be adverse. As part of the standards of sound business practices, management has developed a product design and pricing policy as well as an underwriting and liability management policy for each of its major product lines. Reinsurance is used to mitigate excessive exposure to adverse mortality and morbidity experience. Management reviews and establishes retention limits for its various product lines and the Board of Directors approves changes to these retention limits. Because reinsurance does not release a company from its primary commitments to its policyholders, Empire reviews the financial soundness of reinsurers before entering into any reinsurance treaty and thereafter once a treaty is in place.

Other risks include internal control and regulatory risks. An internal audit function monitors the effectiveness of the internal controls developed by management and reports its findings to the Audit Committee of the Board. Management has established a compliance program and has appointed a chief compliance officer and compliance officers in each business unit to manage regulatory risk and provides a regular report to the Audit Committee of the Board on regulatory compliance.

Outlook

As was the case in 2002, industry consolidation continued amongst broadly focused competitors in 2003 with Great-West Life taking over Canada Life earlier in the year and Manulife poised to acquire Maritime Life as part of its acquisition of John Hancock. The continued trend to fewer players and ongoing pressure for reasonable rates of return on investments from each product line has led to higher prices and profit margins in the employee benefits marketplace. This was again demonstrated in Employee Benefits results in 2003, as Empire was able to simultaneously improve market share and rate of return. Looking forward, as consolidation activity continues to slow down, profit margins should remain level provided a company can continue to improve operating efficiency and offer the resultant economies of scale to the marketplace

through lower expense charges. Empire's focus on balanced growth and profit, and its demonstrated impact in reducing unit expenses, coupled with a focus on building strong relationships with our producing partners, should continue to enhance our strong presence in the small group marketplace while simultaneously achieving target returns.

The individual life insurance marketplace in Canada continues to be very competitively priced. This is partly due to the ongoing improvements in mortality and in operating efficiencies, which have been passed on to the consumer. It is also partly due to the availability of competitive reinsurance rates that enable companies who use higher levels of reinsurance to reduce new business strain and thus avoid having sales growth suppress short-term earnings. To date, continued industry consolidation has not had a significant upward impact on pricing levels. It has however offered opportunities for companies such as Empire to grow by filling the void left in independent advisors' product portfolios when the products of acquired companies are no longer offered. Empire will continue to take advantage of the growth resulting from the strong relationships that have been built with members of both the IFA and MGA distribution networks. The more than doubling of sales in the last two years has resulted in significant improvements in cost ratios. While expecting to grow this line of business at above industry average rates, this past improvement in unit expenses means that in the future Empire can take a more balanced approach to growth and profit and focus on those market segments where its core products are both competitive and provide an acceptable rate of return.

On the wealth management side of the business, the rebound in world stock markets during 2003 has resulted in positive net sales in the Canadian pooled fund marketplace in the last several months. This occurred despite the scandals that have rocked the U.S industry and which have caused consumers to question the ethics and value propositions of their fund providers. The impact of these scandals will cross the border and will no doubt reduce consumer confidence. This is also expected to retard the rate at which consumers switch their buying preference back to fund products from the guaranteed interest products that they migrated to in 2002 and early 2003. Empire's products are positioned to take advantage of shifts in either direction, with products offering both segregated funds and guaranteed interest vehicles and the ability to transfer between them. Looking forward, the increases to registered retirement savings plan maximums are expected to provide a growth boost to the wealth management industry. Empire's future focus is on growing its market share in the fund business. Late in 2003 Empire added the capability to accept electronic transactions for fund business. This "electronic link" is expected to enable Empire to increase market share by building synergies with those members of the MGA distribution network with whom it already has relationships on the life insurance side of the house, but who require electronic capabilities to place fund business.

Throughout the past two years Empire has broadened its distribution reach by building and expanding on the previously established relationships within the MGA network, and continuing existing relationships within the IFA network. Empire remains committed to the distribution of its products through qualified intermediaries who can provide the counsel consumers need to fulfil their financial goals. It is our intention to continually enhance the product, technology and service support that these advisors need to satisfy their clients. We believe that the strengthening of our relationships with our producing partners and a focus on developing new relationships with quality producers are the key elements in achieving our growth goals.

February 26, 2004

Management Report

The accompanying consolidated financial statements of E-L Financial Corporation Limited and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include amounts that are based on judgements, which are applied consistently and are considered appropriate in the circumstances.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

The Company and its subsidiaries maintain systems of internal control which are designed to provide reasonable assurance that assets are safeguarded, that transactions are properly recorded and that financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee and the Audit Committees of its subsidiaries. These Audit Committees meet periodically with management and with the internal and external auditors to discuss the scope and results of audit examinations with respect to internal controls and financial reporting of the Company and its subsidiaries. The Audit Committees also meet periodically with the appointed actuaries.

The actuaries are appointed by the boards of directors of the insurance subsidiaries to conduct an annual valuation of policy liabilities, in accordance with accepted actuarial practices, and to report on whether the valuations are appropriate and whether their results are fairly presented in the subsidiaries' financial statements. The appointed actuaries use the work of the external auditors in verifying data used for valuation purposes.

Deloitte & Touche LLP has been appointed external auditors. It is their responsibility to report to the shareholders regarding the fairness of presentation of the Company's consolidated financial position and results of operations as shown in the annual financial statements. In carrying out their audit, the external auditors also make use of the work of the actuaries and their reports on policy liabilities. The external auditors have full and free access to, and meet periodically with, the Audit Committees to discuss their audits. The Auditors' Report outlines the scope of their examination and their opinion.

Duncan N.R. Jackman
Chairman and President

Mark M. Taylor
Executive Vice-President
and Secretary

E-L Financial Corporation Limited and subsidiary companies

Consolidated Balance Sheets
(thousands of dollars)

Assets	As at December 31, 2003	2002 (Note 2)
Portfolio investments, at market value (Note 3)	$ 679,837	$ 589,792
Investments - insurance operations (Note 4)	3,693,661	3,383,939
Cash and cash equivalents	207,196	167,927
Premiums receivable	245,264	199,992
Accrued investment income	25,718	25,800
Deferred acquisition expenses	102,489	80,157
Reinsurance recoverable (Note 5)	185,640	147,217
Future income taxes (Note 11)	83,748	43,432
Other assets (Note 7)	122,146	89,245
	$ 5,345,699	$ 4,727,501
Segregated funds assets	$ 1,962,860	$ 1,702,257

Auditors' Report

To the Shareholders of
E-L Financial Corporation Limited

We have audited the consolidated balance sheets of E-L Financial Corporation Limited as at December 31, 2003 and 2002 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Toronto, Canada
February 26, 2004

Consolidated Balance Sheets (continued)

(thousands of dollars)

As at December 31,

Liabilities		2002 (Note 2)
Policy liabilities (Note 5)	**$ 3,494,129**	$ 3,058,635
Policyholders' funds on deposit	**25,990**	25,809
Income and other taxes payable	**40,269**	6,256
Provision for profits to policyholders	**12,529**	11,514
Deferred realized net gains on investments (Note 6)	**138,097**	132,636
Other liabilities	**122,913**	97,975
Future income taxes on unrealized appreciation of portfolio investments (Notes 3 and 11)	**28,718**	18,089
	3,862,645	3,350,914
Minority interest	**75,827**	73,415
Participating policyholders' interest	**31,833**	34,676
	107,660	108,091
Shareholders' Equity		
Capital stock (Note 9)	**7,892**	7,892
Retained earnings (Note 9)	**1,008,571**	963,621
Unrealized appreciation of portfolio investments (Note 3)	**358,931**	296,983
	1,375,394	1,268,496
	$ 5,345,699	$ 4,727,501
Segregated funds liabilities	**$ 1,962,860**	$ 1,702,257

Approved by the Board

Duncan N.R. Jackman, Director

J. Christopher Barron, Director

E-L Financial Corporation Limited and subsidiary companies

Consolidated Statements of Income
(thousands of dollars except per share amounts)

	Years Ended December 31, 2003	2002 (Note 2)
Revenue		
Insurance premiums	**$ 1,252,182**	$ 1,003,460
Annuity premiums	**105,937**	103,835
Investment and other income	**275,564**	228,858
Amortization of realized investment gains	**21,831**	20,153
Amortization of unrealized investment gains	**10,831**	5,649
Gain (loss) on sale of investments	**(13,394)**	18,208
	1,652,951	1,380,163
Expenses		
Claims and policy benefits	**1,144,084**	925,833
Commissions	**244,676**	189,418
Operating	**153,263**	149,952
	1,542,023	1,265,203
Income before the undernoted items	**110,928**	114,960
Taxes		
Income (Note 11)	**10,671**	21,411
Premium	**38,053**	30,290
Investment and capital	**2,670**	3,401
	51,394	55,102
Income before policyholders' and minority shareholders' interest	**59,534**	59,858
Policyholders' and minority shareholders' portion of income	**12,664**	12,239
Net income (Note 12)	**$ 46,870**	$ 47,619
Earnings per share	**$ 12.20**	$ 12.40

Consolidated Statements of Retained Earnings
(thousands of dollars)

	Years Ended December 31, 2003	2002 (Note 2)
Beginning of year, as previously reported	$ 962,510	$ 912,918
Effect of accounting policy change (Note 2)	1,111	5,004
Beginning of year, as restated	963,621	917,922
Net income	46,870	47,619
	1,010,491	965,541
Dividends (Note 9)	(1,920)	(1,920)
End of year	$1,008,571	$ 963,621

Consolidated Statements of Cash Flows
(thousands of dollars)

	Years Ended December 31, 2003	2002 (Note 2)
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income	$ 46,870	$ 47,619
Items not affecting cash resources:		
Increase in net policy liabilities	397,071	215,745
(Gain) loss on sale of investments	13,394	(18,208)
Future income taxes	(40,316)	(3,951)
Other items	(60,538)	(58,191)
Policyholders' dividends	(11,893)	(10,972)
	344,588	172,042
Net purchases of short-term investments - insurance operations	(34,910)	(24,836)
Net change in other assets and liabilities	(50,532)	(50,640)
	259,146	96,566
Financing		
Dividends to shareholders	(1,920)	(1,920)
Investing		
Purchases of investments	(1,320,480)	(1,067,867)
Proceeds from sale of investments	1,096,512	962,397
Net sales of short-term investments	3,798	10,645
Net sales (purchases) of other assets	3,565	(4,724)
	(216,605)	(99,549)
Increase (decrease) in cash and cash equivalents	40,621	(4,903)
Cash and cash equivalents, beginning of year	143,274	148,177
Cash and cash equivalents, end of year (Note 18)	$ 183,895	$ 143,274

Notes to Consolidated Financial Statements
(all dollar figures expressed in thousands)

1. Nature of the business

E-L Financial Corporation Limited (the "Company") is an investment holding company.

The Company has two operating insurance subsidiaries, The Dominion of Canada General Insurance Company ("Dominion") and The Empire Life Insurance Company ("Empire"). Dominion underwrites property and casualty insurance ("general insurance") while Empire underwrites life and health insurance policies and annuity contracts (collectively "life insurance") for individuals and groups. Both subsidiaries are registered under the Insurance Companies Act and operate in most provinces and territories across Canada.

In addition, the Company manages a portfolio of publicly traded fixed income and equity securities both directly and indirectly through a number of closed-end investment fund corporations and other investment companies ("portfolio investments").

2. Summary of significant accounting policies

Basis of presentation

These consolidated financial statements include the accounts of Dominion (wholly-owned); E-L Financial Services Limited (81.0% owned) and its 98.3% owned subsidiary company, Empire.

On January 1, 2002, Empire amalgamated with its wholly-owned subsidiary, Concordia Life Insurance Company ("Concordia") and continued under the name "The Empire Life Insurance Company," and Dominion amalgamated with its wholly-owned subsidiary, Chieftain Insurance Company ("Chieftain") and continued under the name "The Dominion of Canada General Insurance Company." GRENEL Financial Corporation was dissolved on June 26, 2002.

General accounting policies

Short-term investments

Short-term investments consist of treasury bills, commercial paper, guaranteed investment certificates and bankers' acceptances held for investment purposes. These investments are carried at cost, which approximates fair value.

Dividends and interest

Dividend income is recognized on the ex-dividend date. Interest income is recognized as it is earned.

Employee future benefit plans

The Company accrues its obligations for its employee benefit plans, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services and using management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The transition asset arising on the adoption of the new accounting rules is being amortized over the average remaining service period of active employees. The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Capital assets

Capital assets (furniture, equipment and computer software) are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the useful life of the capital assets, which varies from two to five years. Leasehold improvements are amortized over the related remaining lease term. The general insurance operation amortizes its building on a five per cent declining balance basis.

Income taxes

Future income tax assets and liabilities are recorded for the expected future income tax consequences of events that have been included in the financial statements or income tax returns. Future income taxes are provided for using the asset and liability method. Under the asset and liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities and for certain carry-forward items.

Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates, on the date of the enactment or substantive enactment.

Portfolio investments

The significant accounting policies applied to the Company's portfolio investments are as follows:

Investments

Portfolio investments are carried at market value. For publicly traded securities, market value is determined based on closing market quotations. Equities traded over-the-counter are priced at the latest market price quoted by the major dealers in such securities. Securities which are not publicly traded represent shares in certain investment companies, for which market value is determined based on the market values of the underlying net assets. The investment portfolios held by these companies are comprised of publicly traded securities.

Realized gains and losses on sale of investments, measured as the difference between average cost and sales proceeds, are recognized in the income statement on the date of disposal. Unrealized gains and losses which arise through changes in the market value of portfolio investments, net of the relevant future income taxes, are recorded through Unrealized appreciation of portfolio investments which is a separate component of Shareholders' equity.

Insurance operations

The accounting policies applied in the general and life insurance industries differ in various respects. The differences mainly affect investments and policy liabilities as explained below.

Accounting policy changes

Effective January 1, 2003, the general insurance operation adopted an accounting change whereby all components of Unpaid and unreported claims and Reinsurance recoverable are now measured on a discounted basis in accordance with accepted actuarial practice, as prescribed by the Canadian Institute of Actuaries. Previously, only auto accident benefit claims and recoverables were valued on a discounted basis. This change in accounting policy has been applied retroactively with restatement of the 2002 comparative figures.

The retroactive impact on the financial statements as at January 1, 2002, is a decrease in Policy liabilities of $12,928, a decrease in Reinsurance recoverable of $5,099, a decrease in the Future income taxes of $2,825 and an increase in Retained earnings of $5,004. The 2002 Claims expense was increased by $6,152 and Future tax expense was decreased by $2,259, resulting in a decrease in Net income of $3,893 for 2002. The ending balances for 2002 were affected as follows: Policy liabilities decreased $4,547, Reinsurance recoverable decreased $2,870, Future income taxes decreased $566 and Retained earnings increased $1,111.

The effect of adopting this change on 2003 is an increase in Claims expense of $12,271 and a decrease in Future tax expense of $4,364, resulting in a decrease in net income of $7,907. The cumulative effect of the accounting change on 2003 ending balances is an increase in Policy liabilities of $5,787, a decrease in Reinsurance recoverable of $4,807, an increase in Future income taxes of $3,798 and a decrease in Retained earnings of $6,796. Discounting increased Claims expense in 2002 and 2003 because the discount rate was decreased in both years.

Effective January 1, 2003, the Company prospectively adopted new requirements of the Office of the Superintendent of Financial Institutions ("OSFI") modifying the existing Moving Average Market Method, required to be used by life insurance companies for the amortization of realized and unrealized gains and losses on their stock and real estate portfolios. The new OSFI requirements involve quarterly amortization in place of the year-to-date approach. Quarterly rates of 5% for stocks and 3% for real estate replace annual 15% and 10% rates respectively. The new requirements are not a fundamental change to the amortization method; they are a change to the mechanics of applying the rates.

Effective January 1, 2003, the Company prospectively adopted new Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 14 (AcG-14), "Disclosure of Guarantees". Contingent obligations of the Company to third parties are disclosed in note 19.

Investments

Investments in bonds and debentures are carried at amortized cost and mortgages are carried at amortized cost less repayments. Investments in common and preferred stocks, which include fund units, real estate and commercial loans are carried at cost except as described below.

For the general insurance operation, gains and losses on the sale of investments are recognized on the date of disposal. Investments with an impairment in value that is other than temporary are written down to their estimated realizable value.

For the life insurance operation, unrealized gains and losses on common and preferred stocks and real estate are amortized to income at quarterly rates of 5% and 3%, respectively. The accumulated unrealized gains and losses amortized to income are included in the balance sheet with the related investments and are separately disclosed in Note 4. Realized gains and losses on stocks are deferred and amortized to income at a 5% quarterly rate. Realized gains and losses on the sale of bonds and mortgages are deferred and amortized to income over the lesser of the period to maturity or twenty years from the date of sale. The unamortized realized gains and losses for bonds, mortgages and common and preferred stocks are included in the consolidated balance sheet as Deferred realized net gains on investments.

Loans on policies are carried at their unpaid balance and are either fully secured by the cash surrender values of the life insurance policies on which the respective loans are made or secured by the assignment of a life insurance policy to the life insurance operation.

The life insurance operation also uses certain common share and bond investments for hedging its exposure to products it offers which have a savings component that varies with a variety of indices and currencies. These investments are accounted for on a mark to market basis.

Derivatives

In the ordinary course of business, the life insurance operation uses futures contracts, call options and foreign currency forward contracts to match policy obligations that vary with a variety of indices or foreign currencies. These financial instruments are marked to market and the unrealized gains and losses are recognized in income in the period.

The life insurance operation also uses futures contracts to partially match Shareholders' and Policyholders' equity. Realized and unrealized gains or losses on futures used for this purpose are amortized to income in the same manner as common and preferred stocks.

Deferred acquisition expenses

In the life insurance operation, distribution costs of segregated funds having a deferred sales charge, are deferred and amortized over the term of the related deposits or the applicable period of such sales charges, as appropriate. These deferred costs form part of Policy liabilities on the consolidated balance sheet and the related amortization forms part of Claims and policy benefits on the consolidated statement of income.

Deferred acquisition expenses for the general insurance operation, comprised primarily of commissions and premium taxes, are amortized on the same basis as the related premiums are earned. The amount deferred is limited to the amount recoverable.

Policy liabilities

Policy liabilities are determined using accepted actuarial practices in accordance with the standards of the Canadian Institute of Actuaries. Annually, each insurance subsidiary obtains an actuarial opinion on the appropriateness of the policy liability amounts recorded in its financial statements. These opinions also incorporate related amounts for reinsurance recoverable and deferred acquisition expenses. The bases used for estimating each of general and life insurance policy liabilities are described below.

General insurance policy liabilities include provisions for unearned premiums and unpaid and unreported claims. The provision for unpaid and unreported claims provides for all costs of investigation and settlement of insurance losses that have occurred prior to the year end, net of anticipated salvage and subrogation. Estimates must be made of the ultimate costs for known or reported claims as well as an estimate for those claims incurred but not yet reported. Many assumptions underlie these estimates, such as claims frequency and severity, claims payment trends, inflation and interest rates, as well as potential changes in legislation and in the interpretation of liability by the courts. Unpaid and unreported claims are valued on a discounted basis, in accordance with accepted actuarial practice.

Life insurance policy liabilities represent the estimated amount which, together with estimated future premiums and investment income, will be sufficient to fund future benefits, dividends, expenses and taxes on policies in force. The liabilities incorporate management's best estimate assumptions regarding such factors as mortality and morbidity, investment returns, rates of policy terminations, level of operating expenses, inflation, policyholder dividends and taxes.

All changes in Policy liability estimates are recorded in Claims and policy benefits in the consolidated statement of income in the period in which they occur.

Reinsurance ceded

Reinsurance is ceded to other insurers in order to limit exposure to significant losses. Reinsurance ceded does not relieve the insurance operation of its primary liability. Ceded reinsurance premiums and reinsurance recoveries on claims and policy benefits incurred are recorded as a reduction of the respective income and expense amounts. Estimates of amounts recoverable from reinsurers in respect of insurance policy liabilities and unearned premiums are recorded as Reinsurance recoverable on the consolidated balance sheet.

(all dollar figures expressed in thousands)

Participating policyholders' interest

Certain life, disability and annuity policies are defined as participating policies by contractual provisions, and are eligible for periodic dividends. The distribution of dividends is made from the earnings attributed to the performance of the participating business.

Segregated funds

The segregated fund asset and liability amounts on the consolidated balance sheet are in respect of investment funds held on behalf of life insurance policyholders.

The consolidated statement of income includes fee income earned from the segregated fund business.

Investments held in the segregated funds are carried at their period end market values.

Insurance premiums

In the general insurance operation, premiums are earned on a straight-line basis over the term of the related policies. Premium finance fee income, included in Investment and other income, is earned on a straight line basis over the term of the related policies.

In the life insurance operation, gross premiums are generally recognized as revenue when due.

3. Portfolio investments

	2003		2002	
	Cost	**Market Value**	Cost	Market Value
Short-term investments	**$ 42,808**	**$ 42,808**	$ 46,607	$ 46,607
Bonds and debentures	**93,728**	**96,677**	128,301	132,181
Common and preferred stocks	**155,652**	**540,352**	99,812	411,004
	$ 292,188	**$ 679,837**	$ 274,720	$ 589,792

Market values for bonds and debentures are based on publicly quoted prices. Market values for publicly traded equity securities are based on closing market quotations. Where equity securities are not publicly traded, market values are determined based on the market value of the net assets underlying those entities. Realization on the market value appreciation of equity investments held is dependent in part on the timing of distribution of cash dividends by these entities or the ultimate disposition of the Company's interest in these entities.

The Company's investments in common and preferred stock are primarily held in entities that can be significantly influenced by a party that can significantly influence the Company. Included in the consolidated statement of income are cash dividends from these companies amounting to $9,902 (2002 - $16,622).

The Company's bond and debenture portfolio is comprised of 65% (2002 - 62%) Canadian federal and provincial bonds. Bond and debenture investments have the following maturity profile: 15% (2002 - 15%) less than one year, 44% (2002 - 41%) between one and five years, and 41% (2002 - 44%) over five years.

(all dollar figures expressed in thousands)

The effective interest rate on this portfolio is 5.1% (2002 - 5.4%) and the portfolio duration is 5.3 years (2002 - 5.8 years). The net change in Unrealized appreciation of portfolio investments is comprised of the following:

	2003	2002
Unrealized appreciation of portfolio investments, beginning of year	**$ 296,983**	$ 327,550
Increase (decrease) in market value of portfolio investments	**75,006**	(24,665)
Realized gains during the year	**(2,429)**	(7,563)
Impact of change in substantively enacted future tax rates	**(4,770)**	—
Increase in provision for taxes on unrealized appreciation	**(5,859)**	(2,199)
Impact of non-cash dividends received on provision for taxes on unrealized appreciation	**—**	3,860
Unrealized appreciation of portfolio investments, end of year	**$ 358,931**	$ 296,983

The impact of non-cash dividends reflected in the above table is based on the expected tax rate which would apply to the ultimate disposition of the portfolio investments, which is lower than the tax rate paid.

4. Investments - insurance operations

The carrying values and market values of investments are as follows:

	2003		2002	
	Carrying Value	**Market Value**	Carrying Value	Market Value
Short-term investments	**$ 154,332**	**$ 154,332**	$ 119,422	$ 119,422
Bonds and debentures	**1,994,917**	**2,217,604**	1,840,776	2,034,400
Mortgages and commercial loans	**251,467**	**261,638**	242,967	252,957
Common and preferred stocks	**1,059,349**	**1,215,081**	939,362	949,139
Real estate	**7,839**	**14,761**	7,776	12,745
Loans on policies	**194,969**	**194,969**	205,175	205,175
Amortized unrealized gains on investments	**30,788**	**—**	28,461	—
	3,693,661	**4,058,385**	3,383,939	3,573,838
Less: matched securities of life insurance operations	**(1,991,706)**	**(2,209,867)**	(1,898,027)	(2,076,028)
	$1,701,955	**$1,848,518**	$1,485,912	$1,497,810

The carrying values reported in the above table include investments used for hedging comprised of common shares valued at market of $69,288 (2002 - $43,605) and bonds valued at market of $6,287 (2002 - $4,408).

(all dollar figures expressed in thousands)

Market values for bonds and debentures and common and preferred stocks are based on publicly quoted prices. Due to the nature of loans on policies, market value is assumed to be equal to carrying value. Market value for mortgages and commercial loans reflects a revaluation of the underlying cash flows based on current market interest rates. Market values for each real estate property are established periodically by qualified appraisers. Market values, which are shown without providing for any sale transaction costs, represent an approximate measure of fair value.

Matched securities include certain investments acquired to match life insurance policy liabilities by quality, yield and maturity. Fluctuations in the market values of these matched securities usually will not have any net impact upon future income.

The remaining investments are held to maintain sufficient liquidity to pay insurance operations claims as they come due and to provide an appropriate return on policyholders' and shareholders' equity, a significant portion of which must be maintained to satisfy regulatory minimum capital requirements.

Canadian federal and provincial bonds comprise 66% (2002 - 70%) of the insurance operations bonds and debentures. Bonds and debentures for the general insurance operations have the following maturity profile: 8% (2002 - 6%) within one year, 51% (2002 - 39%) between one and five years and 41% (2002 - 55%) over five years. The average effective interest rate of these bonds and debentures is 5.4% (2002 - 6.1%) and the portfolio duration is 4.5 years (2002 - 5.2 years).

Allowances for impaired investments amounted to $5,050 (2002 - $5,964) on impaired investments of $37,719 (2002 - $48,183).

The shareholders' proportion of any gains or losses to be realized on life insurance operation investments will be reduced by amounts attributed or allocated to policyholders' and minority interests.

5. Policy liabilities

Policy liabilities are comprised of:

	2003			2002 Restated - Note 2		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
General insurance unearned premiums provision	**$ 519,498**	**$ 6,676**	**$ 512,822**	$ 406,025	$ 5,017	$ 401,008
General insurance unpaid and unreported claims provision	**879,254**	**69,120**	**810,134**	717,464	50,361	667,103
Life insurance benefits and expense provision	**2,095,377**	**109,844**	**1,985,533**	1,935,146	91,839	1,843,307
	$ 3,494,129	**$ 185,640**	**$ 3,308,489**	$ 3,058,635	$ 147,217	$ 2,911,418

General insurance unearned premiums provision represents the portion of premiums that relate to the unexpired term of underlying insurance policies. These amounts are determined to be sufficient to fund anticipated claims and expenses.

(all dollar figures expressed in thousands)

The change in net policy liabilities from the prior year, excluding the general insurance unearned premium provision, is outlined below:

	2003	2002
General insurance		Restated-Note 2
Balance, beginning of year	**$ 667,103**	$ 611,854
Change in prior years' claims estimates	**10,834**	(20,458)
Interest cost, including impact of change in discount rate	**36,621**	34,082
Current year claims incurred	**615,598**	505,140
Claims payments	**(520,022)**	(463,515)
Balance, end of year	**$ 810,134**	$ 667,103
Life insurance		
Balance, beginning of year	**$1,843,307**	$1,763,463
Changes in valuation assumptions	**54,600**	4,300
Normal changes - new business	**126,400**	132,698
- in-force business	**(38,774)**	(57,154)
Balance, end of year	**$1,985,533**	$1,843,307

Given the absence of an active market for the sale of claims liabilities, the actuarially discounted carrying values for the general insurance unpaid and unreported claims and reinsurance recoverable provide an appropriate representation of fair value.

The general insurance unpaid and unreported claims provision does not include amounts for claims where obligations to claimants have been settled by the purchase of annuities from life insurance companies. The general insurance operation guarantees the life insurers' obligations under these annuities which are estimated to be $217,000 (2002 - $200,000) based on the net present value of the projected future cash flows of these guarantees in 2003. The Company considers the credit risk of such guarantees to be insignificant.

Note 4 shows the relationship between market values and carrying values of matched assets relating to the life insurance operation. The Company has estimated that any increase or decrease in the fair value of the matched asset portfolio would result in a corresponding increase or decrease in the fair value of the related policy liabilities of approximately the same amount.

The provisions described above are estimates and accordingly, the actual amounts that are ultimately incurred will differ. The likelihood of significant differences from amounts currently provided increases with the length of the time until the settlement amounts of claims and the timing of other benefits are established. A significant proportion of the Company's policy liabilities are long-term. Management of the Company is satisfied that current estimates constitute a prudent assessment of these liabilities.

6. Deferred realized net gains on investments

Deferred realized net gains, which arise from the life insurance operation, include approximately $71,000 (2002 - $69,000) of net gains related to bonds and mortgages that are matched to policy liabilities. When amortized, the gains on matched investments will not result in any net increase in future income.

(all dollar figures expressed in thousands)

7. Other assets

Other assets are comprised of the following:

	2003	2002
Due from Facility Association	$ 68,125	$ 32,306
Capital assets, at cost (net of accumulated amortization of $54,507 (2002 - $50,110))	20,836	20,165
Due from reinsurance companies	5,787	10,892
Pension asset (Note 13)	9,373	9,570
Other	18,025	16,312
	$ 122,146	$ 89,245

Facility Association is an insurance plan, operated on behalf of the automobile insurance industry, that provides coverage to higher risk automobile drivers. Results are pooled and shared among automobile insurers.

Amounts previously recorded as goodwill were comprised of intangible assets related to policyholder contracts acquired in a business combination completed in 1997. In 2002, in the course of applying new accounting standards for goodwill and other intangibles, the Company determined that the value originally ascribed to the intangible assets had fully depreciated over the period since acquisition and the balance of $3,068 was written off and charged to operating expenses.

8. Reinsurance

In the normal course of business, the insurance subsidiaries cede reinsurance to other insurers in order to limit exposure to significant losses. The general insurance operation's exposure to claims was limited as follows: $3,000 for an automobile claim; $750 for personal and commercial property claims; $1,250 for a casualty claim; and $2,500 for a surety claim. The general insurance operation also has a catastrophe reinsurance arrangement providing coverage up to $400,000, in the event of a series of claims arising out of a single occurrence, under which the general insurance operation is responsible for the first $15,000 plus 2.5% of the first $60,000 of claims exceeding that retention level. The life insurance operation's exposure to claims is limited to $500 on any one life. These reinsurance arrangements are reflected in the consolidated statement of income as a reduction of $69,666 (2002 - $59,712) in insurance premiums.

9. Shareholders' equity

Capital stock

		2003	2002
Authorized:			
4,402,733	preference shares, issuable in series		
10,597,267	common shares		
Issued:			
264	Series A convertible preference shares	$ 1	$ 1
3,840,248	common shares	7,891	7,891
		$ 7,892	$ 7,892

(all dollar figures expressed in thousands)

The Series A convertible preference shares are convertible in perpetuity into common shares on a share for share basis and are entitled, when and if declared, to a non-cumulative dividend of $0.50 per share per annum.

Both the Series A convertible preference and common shares received dividends of $0.50 per share in 2003 and 2002.

Shareholders' entitlement to $2,817 (2002 - $3,069) of shareholders' equity is contingent upon future payment of dividends to participating life insurance policyholders.

10. Capital adequacy of insurance subsidiaries

The Company's insurance subsidiaries are required to maintain capital and surplus in excess of minimums established through regulatory tests applied by the Office of the Superintendent of Financial Institutions. Each subsidiary has capital and surplus in excess of the required minimum levels.

11. Income taxes

The combined statutory Canadian federal and provincial tax rate applicable to the Company and its subsidiaries in 2003 approximates 36.7% (2002 - 38.9%). Income taxes are assessed on operating income after deducting premium taxes and investment taxes. The effective tax rate varies from the combined statutory rate as follows:

	2003	2002 Restated-Note 2
Income taxes at statutory rate	**$ 25,813**	$ 31,947
Variance as a result of:		
Tax-paid investment income	**(10,814)**	(11,234)
Policy dividends	**(4,341)**	(4,279)
Effect of changes in substantively enacted future tax rates	**584**	749
Other	**(571)**	4,228
Income tax provision	**$ 10,671**	$ 21,411

The Company's income tax expense includes provisions for current and future taxes as follows:

	2003	2002 Restated-Note 2
Current	**$ 50,987**	$ 25,362
Future	**(40,316)**	(3,951)
	$ 10,671	$ 21,411

(all dollar figures expressed in thousands)

The future income tax asset relates to the insurance operations and arises primarily due to taxes paid on the net change in market value of investments and differences in the timing of deduction of claims and policy benefit expenses for tax purposes.

	2003	2002
Policy liabilities	**$ 43,970**	$ 22,203
Investments	**45,207**	26,785
Other	**(5,429)**	(5,556)
	$ 83,748	$ 43,432

Future income taxes on unrealized appreciation of portfolio investments represents the estimated tax that would ultimately be payable on realization of these gains.

During 2003, the Company and its subsidiaries paid income tax instalments totalling $24,712 (2002 - $39,479) and received income tax refunds totalling $4,400 (2002 - $11,452).

The Company also has accumulated refundable dividend tax of $29,981 (2002 - $27,411). The potential benefit of this amount has not been reflected in these financial statements.

12. Analysis of net income

Components of net income, each net of policyholders' and minority shareholders' interest, is as follows:

	2003	2002
		Restated-Note 2
Income excluding undernoted	**$ 42,903**	$ 23,345
Amortization of investment gains and losses	**15,151**	12,658
Gain (loss) on sale of investments	**(11,184)**	11,616
	$ 46,870	$ 47,619

Net income for 2003 includes $2,239 (2002 - $2,130) of amortized realized gains relating to the 1997 disposition of the Company's investment in National Trustco Inc. There remains $9,832 (2002 - $12,071) to be amortized over future years at a rate of 5% per quarter.

(all dollar figures expressed in thousands)

13. Employee future benefit plans

Pension benefit plans include defined benefit plans available to certain employee and executive groups, as well as certain defined benefits elected to be retained on conversion of Dominion's defined benefit plan to a money purchase plan in 1994. The Company and its subsidiaries also provide for extended health care coverage and other future benefits to qualifying employees and retirees.

	Pension Benefit Plans		Other Benefit Plans	
	2003	2002	**2003**	2002
Accrued benefit obligation				
Balance, beginning of year	**$ 99,454**	$ 96,447	**$ 15,021**	$ 12,168
Current service cost	**3,099**	4,078	**589**	997
Employee contributions	**1,321**	1,227	—	—
Interest cost	**6,061**	5,940	**1,009**	831
Benefits paid	**(6,757)**	(4,260)	**(566)**	(556)
Actuarial loss (gain)	**681**	(3,978)	**1,104**	1,581
Balance, end of year	**$ 103,859**	$ 99,454	**$ 17,157**	$ 15,021
Plan assets				
Fair value, beginning of year	**$ 102,630**	$ 107,533	**$ —**	$ —
Actual return on plan asset	**12,914**	(1,464)	—	—
Employer contributions	**2,948**	1,503	—	—
Employee contributions	**1,321**	1,227	—	—
Transfer to fund employer contributions to employee money purchase plan	**(625)**	(1,909)	—	—
Benefits paid	**(6,757)**	(4,260)	—	—
Fair value, end of year	**$ 112,431**	$ 102,630	**$ —**	$ —
Funded status - plan surplus (deficit)	**$ 8,572**	$ 3,176	**$ (17,157)**	$ (15,021)
Unamortized net actuarial loss (gain)	**6,560**	12,480	**3,318**	2,323
Unamortized transitional obligation (asset)	**(5,834)**	(6,363)	**5,405**	6,070
Accrued benefit asset (liability)	**$ 9,298**	$ 9,293	**$ (8,434)**	$ (6,628)
Net pension expense (income)				
Current service cost	**$ 3,099**	$ 4,078	**$ 589**	$ 997
Interest cost	**6,061**	5,940	**1,009**	831
Expected return on plan assets	**(6,574)**	(7,087)	—	—
Amortization of net actuarial loss	**260**	252	**109**	—
Amortization of transitional obligation (asset)	**(530)**	(530)	**665**	920
Net benefit expense	**$ 2,316**	$ 2,653	**$ 2,372**	$ 2,748

(all dollar figures expressed in thousands)

The following weighted average assumptions were used in the actuarial calculations:

- Discount rate of 6.0% (2002 - 6.3%) for pension benefits and 6.3% (2002 - 6.5%) for other benefits;
- Expected long term rate of return on plan assets of 6.5% (2002 - 6.6%) for pension benefits;
- Salary escalation of 4.6% (2002 - 4.6%) for pension benefits;
- Health care cost escalation of 4.3% (2002 - 4.3%) for other benefits.

Included in the previous figures are defined benefit obligations in excess of plan assets as of December 31 as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2003	2002	**2003**	2002
Accrued pension obligation	**$ 12,271**	$ 12,158	**$ 17,157**	$ 15,021
Plan assets at fair value	**$ 9,458**	$ 7,727	**$ —**	$ —

The liability portion of the net accrued pension benefit asset is included in Other liabilities. The Company and its subsidiaries also maintain money purchase staff pension plans available to employees. Pension expense relating to these plans was $2,081 (2002 - $1,909).

14. Segmented information

In managing its investments, the Company distinguishes between its portfolio investments, its investment in general insurance (Dominion) and its investment in life insurance (Empire).

	2003			
	Portfolio Investments	Dominion	Empire	Total
Premium income	$ —	$ 914,844	$ 443,275	$ 1,358,119
Amortization of realized and unrealized investment gains	—	—	32,662	32,662
Gain (loss) on sale of investments	2,429	(15,823)	—	(13,394)
Investment and other income	18,735	63,877	192,952	275,564
Taxes	5,091	41,493	4,810	51,394
Policyholders' and minority shareholders' portion of income	—	—	12,664	12,664
Segment net income	12,461	20,272	14,137	46,870
Segment assets	690,041	1,919,311	2,736,347	5,345,699

(all dollar figures expressed in thousands)

	2002 Restated - Note 2			
	Portfolio Investments	Dominion	Empire	Total
Premium income	$ —	$ 701,586	$ 405,709	$ 1,107,295
Amortization of realized and unrealized investment gains	—	—	25,802	25,802
Gain on sale of investments	7,563	10,645	—	18,208
Investment and other income	19,497	58,057	151,304	228,858
Taxes	11,387	34,849	8,866	55,102
Policyholders' and minority shareholders' portion of income	—	—	12,239	12,239
Segment net income	13,808	22,165	11,646	47,619
Segment assets	605,873	1,593,542	2,528,086	4,727,501

15. Commitments

Future minimum payments under operating leases and other commitments are as follows:

2004	$ 10,699
2005	8,067
2006	7,271
2007	5,363
2008	3,418
Thereafter	14,645
	$ 49,463

16. Risk factors and their management

The Company and its subsidiaries, Dominion and Empire, face various risk factors, inherent in their activities, including risk factors peculiar to insurance operations These risk factors and their management are described below.

Credit risk, interest rate risk and liquidity risk

The management of investments is conducted in accordance with investment policies that are approved by the Board of Directors. Management's application of these policies is regularly monitored by Board committees. Management and Board committees review credit quality of investment purchases and also monitor the credit quality of invested assets over time.

The management of investments is key to matching policy liabilities and earning an appropriate return on investments matched to equity.

Dominion's executives manage liquidity relative to the anticipated pay-out patterns of general insurance claims and, within those constraints, aim to maximize investment income.

Empire's financial, actuarial and investment executives meet regularly throughout each year to monitor the matching of investments to policy liabilities. This process is designed to ensure that interest rate and liquidity risks are managed appropriately. This matching is particularly important relative to investment products, such as annuities.

(all dollar figures expressed in thousands)

Pricing risk

Dominion and Empire price their products with the intention of achieving appropriate profitability in the face of obligations that are uncertain due to a number of factors, including the prospect that they may take many years to mature.

Dominion faces uncertainties involving claims frequency and severity, claims payment trends, investment returns as well as potential changes in legislation and in the interpretation of liability by the courts. Empire faces uncertainties involving mortality, investment returns, expense levels and lapsing of policies.

Product pricing is established through consideration of the companies' actuarial assessment of current claims exposures and anticipated trends in the risk factors described above.

In addition, Dominion and Empire establish policies regarding the amount of risks underwritten which they are prepared to retain, taking into consideration the risk to their available equity. Amounts in excess of that retention are reinsured with external reinsurers.

Business risks

The Company faces a broad range of business risks including: market risks; internal control risks; consumer risks related to sales practices; distribution risks; ongoing strong competition in the insurance marketplace; regulatory constraints on automobile insurance pricing; and various forms of litigation.

The Company and its Board of Directors monitor risks on an ongoing basis, requiring regular reports from management on all key developments and on how planning and other control procedures are being applied to identify and minimize such risks.

To date the Company has not experienced any material adverse effects from such business risks and believes its control procedures will minimize the exposure to such risks in the future.

17. Derivative financial instruments

In the ordinary course of business, as part of an asset-liability management program, the life insurance operation uses various futures contracts, call options and foreign currency forward contracts to match policy obligations that vary with a variety of indices and currencies. In addition, the life insurance operation uses futures contracts to partially match Shareholders' and Policyholders' equity. The notional amounts of these financial instruments are not recognized in the financial statements. The notional amount represents the amount to which a rate or price is applied to determine the cash flow to be exchanged and does not represent direct credit exposure.

	2003		2002	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Exchange-traded				
Equity index futures	**$ 22,859**	**$ 459**	$ 57,921	$ (10)
Over-the-counter				
Equity index options	**—**	**—**	550	35
Foreign currency forwards	**15,205**	**(366)**	50,406	280
Total	**$ 38,064**	**$ 93**	$ 108,877	$ 305

(all dollar figures expressed in thousands)

Futures, options and foreign currency forward contracts substantially mature in less than one year.

Fair value represents the estimated cost of replacing all contracts with a positive value at current quoted market prices, net of those in a negative position.

In the Company's opinion, these positions, which are actively monitored, do not represent any unusual risk and no significant losses are anticipated.

18. Cash and cash equivalents

Components of cash and cash equivalents for purposes of the consolidated statement of cash flows are as follows.

	2003	2002
Cash and cash equivalents	**$ 207,196**	$ 167,927
Bank indebtedness	**(23,301)**	(24,653)
	$ 183,895	$ 143,274

Bank indebtedness is included in Other liabilities on the consolidated balance sheet.

19. Guarantees and other contingencies

The Company by-laws provide indemnification to its current and former directors, officers and employees to the extent permitted by law, against liabilities arising from their service to the Company. The broad general nature of these indemnification by-laws does not permit a reasonable estimate of the maximum potential amount of any liability. No amount has been accrued in the consolidated balance sheet in this respect.

The Company's life insurance subsidiary, Empire, may have a contingent obligation concerning disputed cash surrender values of life insurance policies pledged by the policy owner to secure a bank loan of $11,500. Management believes that amounts already reserved in the Company's consolidated balance sheet are adequate.

In certain cases, the Company would have recourse against third parties with respect to the foregoing items and the Company also maintains insurance policies that may provide coverage against certain of these items.

20. Comparative information

Certain comparative information has been reclassified to conform to the basis of presentation adopted in 2003.

Summary of Consolidated Results

(all dollar figures expressed in thousands except per share amounts)

	2003	2002 (1)	2001 (1)	2000 (1)	1999 (1)
Premium income	**$ 1,358,119**	$ 1,107,295	$ 966,826	$ 918,065	$ 875,594
Gain (loss) on sale of investments	**(13,394)**	18,208	59,643	58,038	20,992
Amortization of realized and unrealized investment gains	**32,662**	25,802	33,850	38,126	31,611
Investment and other income	**275,564**	228,858	246,372	252,551	257,064
Total revenues	**1,652,951**	1,380,163	1,306,691	1,266,780	1,185,261
Claims and policy benefits	**1,144,084**	925,833	836,628	815,601	772,184
Expenses (including commissions)	**397,939**	339,370	292,943	285,041	280,425
Taxes paid to governments	**51,394**	55,102	92,001	82,072	63,018
	59,534	59,858	85,119	84,066	69,634
Policyholders' and minority shareholders' portion of income	**12,664**	12,239	9,863	12,918	17,420
Net income	**$ 46,870**	$ 47,619	$ 75,256	$ 71,148	$ 52,214
Net income per share	**$ 12.20**	$ 12.40	$ 19.60	$ 18.53	$ 13.60
Assets					
Cash and cash equivalents	**$ 207,196**	$ 167,927	$ 169,580	$ 207,918	$ 283,733
Portfolio investments, at market	**679,837**	589,792	615,067	556,400	454,080
Investments - insurance operations	**3,693,661**	3,383,939	3,207,849	3,072,883	2,682,227
Reinsurance recoverable	**185,640**	147,217	141,465	134,136	122,824
Premiums receivable	**245,264**	199,992	154,813	140,876	128,395
Other assets	**334,101**	238,634	222,710	256,434	247,434
	5,345,699	4,727,501	4,511,484	4,368,647	3,918,693
Segregated funds	**1,962,860**	1,702,257	1,860,730	1,873,057	1,846,896
	$ 7,308,559	$ 6,429,758	$ 6,372,214	$ 6,241,704	$ 5,765,589
Liabilities					
Policy liabilities	**$ 3,494,129**	$ 3,058,635	$ 2,837,138	$ 2,770,120	$ 2,456,902
Other liabilities	**368,516**	292,279	307,096	338,374	336,499
Policyholders' and minority shareholders' equity in surplus	**107,660**	108,091	113,886	115,848	114,052
	3,970,305	3,459,005	3,258,120	3,224,342	2,907,453
Capital stock	**7,892**	7,892	7,892	7,892	7,892
Retained earnings	**1,008,571**	963,621	917,922	844,586	775,358
Unrealized appreciation of portfolio investments	**358,931**	296,983	327,550	291,827	227,990
	1,375,394	1,268,496	1,253,364	1,144,305	1,011,240
	5,345,699	4,727,501	4,511,484	4,368,647	3,918,693
Segregated funds	**1,962,860**	1,702,257	1,860,730	1,873,057	1,846,896
	$ 7,308,559	$ 6,429,758	$ 6,372,214	$ 6,241,704	$ 5,765,589

(1) restated for change in accounting policy, see Note 2, page 27

Summary of Life Insurance Operations

(all dollar figures expressed in thousands)

	2003	2002	2001	2000	1999
Premium income	**$ 443,275**	$ 405,709	$ 341,326	$ 324,194	$ 320,932
Amortization of realized and unrealized investment gains	**32,662**	25,802	33,850	38,126	31,611
Investment and other income	**192,952**	151,304	163,435	177,023	185,402
	668,889	582,815	538,611	539,343	537,945
Policy benefits	**481,031**	407,069	362,017	351,752	357,248
Expenses and commissions	**156,247**	142,995	117,600	110,563	105,056
Taxes	**4,810**	8,866	19,490	32,038	26,943
Profits allocated to policyholders	**9,050**	9,249	2,073	4,426	8,904
Profits to minority shareholders	**3,614**	2,990	7,790	8,492	8,516
Net contribution to E-L	**$ 14,137**	$ 11,646	$ 29,641	$ 32,072	$ 31,278
Premium income by line					
Individual:					
Insurance	**$ 162,235**	$ 151,664	$ 146,256	$ 158,001	$ 159,835
Annuities	**102,487**	100,795	68,991	65,583	88,684
Health	**6,885**	4,978	3,606	2,956	1,946
	271,607	257,437	218,853	226,540	250,465
Group:					
Insurance	**16,668**	14,360	11,497	9,350	7,368
Annuities	**3,450**	3,040	1,872	3,394	4,445
Health	**151,550**	130,872	109,104	84,910	58,654
	171,668	148,272	122,473	97,654	70,467
	$ 443,275	$ 405,709	$ 341,326	$ 324,194	$ 320,932
Assets, including segregated funds	**$ 4,589,363**	$ 4,145,680	$ 4,252,497	$ 4,266,224	$ 3,957,868

Summary of General Insurance Operations

(all dollar figures expressed in thousands)

	2003	2002 (1)	2001 (1)	2000 (1)	1999 (1)
Premium income	**$ 914,844**	$ 701,586	$ 625,500	$ 593,871	$ 554,662
Other income	**11,317**	8,876	7,823	7,228	6,457
Claims	**663,053**	518,764	474,611	463,849	414,936
Operating expenditures including commissions and premium taxes	**269,106**	218,543	194,755	192,789	192,345
Underwriting loss	**(5,998)**	(26,845)	(36,043)	(55,539)	(46,162)
Gain (loss) on sale of investments	**(15,823)**	10,645	40,581	53,362	16,630
Investment income	**52,560**	49,181	52,122	50,150	47,651
Income before taxes	**30,739**	32,981	56,660	47,973	18,119
Income taxes	**10,467**	10,816	22,431	17,539	6,070
Net contribution to E-L	**$ 20,272**	$ 22,165	$ 34,229	$ 30,434	$ 12,049
Claims ratio (to net premiums earned)	**72.5%**	73.9%	75.9%	78.1%	74.8%
Expense ratio (to net premiums earned)	**29.4%**	31.2%	31.1%	32.4%	34.7%
Combined ratio	**101.9%**	105.1%	107.0%	110.5%	109.5%
Net premiums written					
Automobile	**$ 671,531**	$ 503,636	$ 412,078	$ 394,493	$ 368,000
Property	**281,662**	225,909	190,921	181,230	174,879
Casualty	**73,465**	52,693	39,898	36,587	33,775
	$ 1,026,658	$ 782,238	$ 642,897	$ 612,310	$ 576,654
Assets	**$ 1,919,366**	$ 1,593,895	$ 1,424,380	$ 1,334,207	$ 1,233,193

(1) restated for change in accounting policy, see Note 2, page 27

Summary of Financial Progress Since the Company's Inception

(all dollar figures expressed in thousands except per share amounts)

Year Ending December 31	Total Assets	Net Premiums	Total Revenues	Shareholders Equity	Net Income	Net Income Per Share
1969	$ 161,787	$ 41,256	$ 49,966	$ 21,447	$ 2,032	$ .61
1970	178,204	48,024	57,637	24,656	2,607	.78
1971	192,863	52,386	62,985	27,007	2,504	.75
1972	212,319	57,570	69,404	30,824	4,352	1.31
1973	234,926	67,732	81,221	34,707	4,278	1.28
1974	257,732	76,487	92,117	37,155	2,118	.63
1975	282,000	88,314	105,793	39,741	2,990	.89
1976	323,131	111,484	131,560	45,824	6,375	1.91
1977	376,428	134,419	158,446	55,047	9,970	2.99
1978	450,606	150,607	179,995	70,323	7,252	2.18
1979	487,206	147,330	181,869	82,604	13,084	3.41
1980	536,926	164,708	204,357	97,422	11,300	2.94
1981	585,110	195,967	242,631	92,162	(1,860)	(.48)
1982	630,645	218,042	273,265	100,691	8,662	2.25
1983	706,425	219,067	281,979	129,134	28,464	7.41
1984	777,270	230,445	300,345	150,766	26,954	7.02
1985	1,118,141	356,232	441,180	140,111	(9,671)	(2.52)
1986	1,400,171	435,795	537,969	154,593	18,436	4.80
1987	1,545,769	480,742	602,617	187,455	21,846	5.69
1988	1,666,086	477,787	610,928	222,944	36,097	9.40
1989	1,832,250	547,353	696,924	256,575	40,258	10.48
1990	1,928,160	568,217	727,841	255,463	7,208	1.88
1991	2,341,396	667,477	820,109	276,464	31,725	8.26
1992	2,783,297	737,292	933,083	322,706	18,700	4.87
1993	2,944,319	706,822	914,718	362,925	41,619	10.84
1994	3,029,425	637,915	812,062	402,734	41,055	10.69
1995	3,052,601	723,330	900,179	443,953	43,555	11.34
1996	3,598,443	766,606	964,533	498,320	57,814	15.05
1997	5,130,087	805,187	1,135,463	667,634	166,386	43.32
1998	5,522,285	822,513	1,109,457	951,114	57,165	14.88
1999	5,756,343	875,594	1,185,846	1,001,548	52,599	13.70
2000	6,253,408	918,065	1,267,189	1,139,691	73,389	19.11
2001	6,385,555	966,826	1,306,988	1,250,974	77,480	20.17
2002	6,433,194	1,107,295	1,380,163	1,267,385	51,512	13.41
2003	7,308,559	1,358,119	1,652,951	1,375,394	46,870	12.20

This chart is drawn from the individual annual reports and therefore has not been restated for any subsequent changes in accounting policies.

Note:

1985 - The Canadian Indemnity Company was acquired
1986 - Montreal Life Insurance Company was acquired
1991 - Canadian operations of SAFECO Corporation were acquired
1997 - Concordia Life Insurance Company was acquired
- Investment in National Trustco Inc. was sold
1998 - E-L Financial's portfolio investments were recorded at market value versus cost basis

The
DOMINION OF CANADA
General Insurance Company

Corporate Management

President and
Chief Executive Officer
GEORGE L. COOKE

Vice-President and
Chief Information Officer
JANET E. BABCOCK

Vice-President
and Chief Actuary
NATHALIE BÉGIN

Vice-President
Legal and Public Affairs and Corporate Secretary
VIVIAN BERCOVICI

Vice-President
Claims
JERRY DALLA CORTE

Vice-President
Field Operations
ALAN J. HANKS

Vice-President
and Chief Financial Officer
DOUG HOGAN

Vice-President
Special Claims
LORNE D. McCUBBIN

Vice-President
Underwriting and Business Analysis
BRIGID MURPHY

Vice-President
Human Resources
SHELLY A. RAE

Vice-President
Business Process, Delivery and Information
STEVE WHITELAW

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Chief Executive Officer
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Vice-President and
Corporate Secretary
RICHARD B. CARTY

Vice-President and
Chief Investment Officer
DEBORAH K. FRAME

Vice-President
and Actuary
J. EDWARD GIBSON

Vice-President
Individual New Business Operations
LESLIE C. HERR

Vice-President
Employee Benefits
JAKE J. HILBERDINK

Vice-President
and Controller
GARY J. McCABE

Vice-President
Corporate Development
BRENDAN M. McCORMICK

Vice-President
Information Systems
WENDY R. M. MERKLEY

Vice-President
Individual Marketing and Inforce Operations
STEVE S. PONG

Senior Vice-President
Corporate
MICHAEL C. SCHNEIDER